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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **COUNTYWIDE CONTRACT MONITORING PROJECT**

In April 2003, the Board requested the Auditor-Controller to start a pilot project to determine the feasibility of establishing a County-wide contract monitoring unit to monitor contractor compliance. The goal of the project was to determine whether contract monitoring for departments with social services contracts could be improved through better oversight.

Background

The pilot project included three programs in the Department of Community and Senior Services (DCSS), two programs each in the Departments of Public Social Services (DPSS) and Children and Family Services (DCFS), and one program in the Department of Mental Health (DMH). The programs were selected based on their significant funding levels and their use of multiple contractors to provide direct program services.

Eight auditors from the Auditor-Controller's Audit Division, three foster care group home monitors from the Auditor-Controller's Children Services Ombudsman Unit, and two program staff each from DPSS, DMH and DCSS, and one program staff from DCFS were recruited to staff the project. The total of 18 staff was divided into eight teams with an auditor in charge of each team. Each program's contract was reviewed to identify key performance requirements. Specific monitoring procedures were developed to test for compliance and staff is trained on how to apply the procedures.

Results of Contract Monitoring Reviews

We began the contractor reviews in December 2003. As of the end of April 2004, we completed 22 reviews with final reports issued. An additional 19 reviews are in various stages of completion. The reviews have disclosed numerous contractor deficiencies that were not previously identified in department monitoring reports. The following are examples of common problems noted:

- Billing for services that were not provided
- Contractor staff not having the required qualifications
- Billings for ineligible services and participants
- Lack of documentation to support billed services.

While there were variances between contractors and programs, overall, the contractor deficiencies were significant. Because of the large amount of funds being spent under these contracts and the importance of the contracted services to the public, it is essential that the quality and number of social services contracts monitored be substantially improved.

Conclusion

In our report to your Board, dated April 24, 2003, we identified three available options to improve the County's contract monitoring efforts that included centralizing the County's contract monitoring function under the Auditor-Controller, placing County departments' monitoring staff under the Auditor-Controller's supervision, and contracting with firms to performing monitoring under the Auditor-Controller's oversight. Due to the pilot project's accomplishments, we believe that centralizing the contract monitoring function is the most effective option.

The project has demonstrated that the centralized approach is an effective, efficient manner to accomplish the County's contract monitoring functions. Previously, undetected problems have been detected. Staff is dedicated to this one function to ensure it is completed, rather than being diverted to other functions. The process is detailed, disciplined and well supervised to ensure the quality of the reviews is high and that the reviews are performed in a timely manner. Having the monitoring performed by personnel not under the supervision of the contracting departments also appears to result in a more objective and consistent evaluation of contractor performance.

Accordingly, we recommend that the Auditor-Controller be directed to establish a Contract Monitoring Division to centralize monitoring of social services contracts for all County departments.

Program staff loaned to the Auditor-Controller for the pilot project performed very well and provided valuable program expertise that added to the successful outcome of the project. Accordingly, the Contract Monitoring Division should continue the approach of

using a team of internal auditors and program staff. In the long-term, we believe that most program staff can be trained to provide expertise in a variety of programs.

Proposed Course of Action

The pilot project included a total of eight programs within the Departments of Public Social Services (DPSS), Community and Senior Services (DCSS), Mental Health (DMH), and Children and Family Services (DCFS) with approximately 310 contracts with a value over \$740 million.

Attachment I shows the total number of social services contracts in DPSS, DCSS, DMH, DCFS, Department of Health Services, and Probation Department. The total number of contracts shown on Attachment I is 4,966 with a value of approximately \$3 billion.

Providing the staff needed to monitor this number of contracts would not be feasible either from a budget standpoint, or our ability to recruit and train such a large number of staff, if your Board approves expanding the monitoring program. Additionally, we anticipate economies of scale and economies of skill that make it difficult to project a total staffing number. Also, we anticipate many contractors will improve their performance as they become aware of contract requirements and they need to be accountable for their performance.

Further, we need to begin monitoring social services contracts in the Departments of Health Services and Probation. This will require research into program and contract requirements. Finally, it is essential that we concurrently work with the six program departments to improve contract compliance requirements and program outcome measures.

Accordingly, for the Fiscal Year beginning July 1, 2004, we request an additional 14 staff. In addition, we request that the Auditor-Controller Audit Division staff assigned to the pilot project be replaced as there are many contractors that need a fiscal audit in addition to a contract compliance review. Also, since the funding for the seven program staff currently assigned to the pilot project are in the social service departments' budget, we would keep them as monitoring staff and bill the departments.

The cost of the 32 positions is approximately \$3.4 million. (Attachment II) We plan to bill this amount back to the six social service departments, resulting in no additional net County cost to the Auditor-Controller's budget. The six social service department should be able to absorb the additional billings through subvention or using other existing budgeted contract monitoring staff resources, assuming no backfilling. Accordingly, there should be no net County cost (NCC) increase for staffing. However, there could be some NCC for ancillary costs, such as the cost of support staff, overhead, office space, supplies, utilities, etc. which are not included in the \$3.4 million, if the departments are unable to obtain subvention.

If your Board approves the 32 monitoring positions, the Auditor-Controller will work with the CAO and Department of Human Resources on establishing the Contract Monitoring Division within the Auditor-Controller, including the organization structure, position classifications, etc. In addition, we will work with the six social service departments to identify the departments' ability to absorb the additional billings and the ancillary costs associated with establishing a Contract Monitoring Division. We will report back to the Board within 60 days on our progress.

Please call me if you have any questions or your staff my call DeWitt Roberts at 626/293-1101.

Attachments

JTM:PTM:DR:DC

c: David E. Janssen, Chief Administrative Officer
Dr. David Sanders, Department of Children and Family Services
Bryce Yokomizo, Department of Public Social Services
Cynthia Banks, Department of Community and Senior Services
Dr. Marvin J. Southard, Department of Mental Health
Dr. Thomas L. Garthwaite, Director and Chief Medical Officer
Richard Shumsky, Chief Probation Officer
Michael J. Henry, Department of Human Resources
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

**SOCIAL SERVICE DEPARTMENT CONTRACTS
BY DEPARTMENT**

Department	Number	Dollar Value (in millions)	
Community and Senior Services	744	\$	217
Public Social Services	150	\$	757
Mental Health	1,101	\$	869
Children and Family Services	436	\$	103
Probation	135	\$	13
Health Services	2,400	\$	1,000
Overall Total	4,966	\$	2,959

Pilot Project Staffing Request

Direct Salaried Position	Full-Time Equivalent	Monthly Rate	Annual Cost
Audit Staff			
Division Chief	1	\$9,357	\$112,284
Chief Accountant-Auditor	2	\$8,060	\$193,440
Principal Accountant-Auditor	4	\$6,976	\$334,848
Senior Accountant-Auditor	8	\$6,017	\$577,632
Intermediate Accountant-Auditor	4	\$5,114	\$245,472
Total Salaries - Audit Staff	19		\$1,463,676
Program Staff			
Program Specialist IV	1	\$7,494	\$89,928
Program Specialist III	4	\$6,976	\$334,848
Program Specialist II	5	\$6,167	\$370,020
Program Specialist I	3	\$5,533	\$199,188
Total Salaries - Program Staff	13		\$993,984
Total Salaries			\$2,457,660
Employee Benefits @ 37.82%			\$929,487
Total Salaries and Employee Benefits (1)	32		\$3,387,147

(1) This amount will be billed back to the social service departments and does not include other ancillary expenses, such as support cost and overhead.